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DAN FARNETT  
CHIEF OF STAFF

October 6, 2005

shudson@regstaff.sc.gov

**VIA HAND DELIVERY**

Charles L.A. Terreni, Esquire  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

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2005 OCT -6 PM 4:15  
SC PUBLIC SERVICE  
COMMISSION

RE: Duke Power- Annual Review of Base Rates For Fuel Costs  
**Docket No.: 2005-5-G**

Dear Mr. Terreni:

Enclosed for filing please find the original and twenty-five (25) copies of the Direct Testimony and Exhibits of Roy Barnett and Brent Sires in the above referenced matter. Please date stamp the extra copy enclosed and return it to me via our courier.

Also, we have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

*Shannon Bowyer Hudson*

Shannon Bowyer Hudson, Esquire  
Office of Regulatory Staff

SBH/pkr  
Enclosures

cc: Patricia Banks Morrison, Esquire (w/enclosures)  
Belton Zeigler, Esquire (w/enclosures)  
Scott Elliott, Esquire (w/enclosures)  
Paige J. Gossett, Esquire (w/enclosures)

*OK D. Deke*  
*OK W. Deke*

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October 6, 2005  
Columbia, South Carolina

# **THE OFFICE OF REGULATORY STAFF**

## **DIRECT TESTIMONY AND EXHIBITS**

**OF**

**BRENT L. SIRES**

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**Docket No. 2005-5-G**

**South Carolina Electric & Gas Company  
Annual Review of the PGA and  
Gas Purchasing Policies**

**DIRECT TESTIMONY OF  
BRENT L. SIRES  
FOR  
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF  
DOCKET NO. 2005-5-G**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Brent L. Sires. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Specialist in the Gas Department for the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Science Degree, Marketing and Management, from the University of South Carolina in 1979. From 1980 to 2004, I was a member of the Utilities Department of the South Carolina Public Service Commission where I participated in cases involving natural gas. In January 2005, I began my employment with the ORS.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to present ORS's findings and recommendations resulting from a review of South Carolina Electric and Gas Company's ("SCE&G") or ("Company") Purchasing Policies, Industrial Sales Program, and the cost of gas factor for the period November 2005 through October

1 2006. I also reviewed the operation of the Purchased Gas  
2 Adjustment Clause ("PGA") during the review period.

3 **Q. PLEASE DESCRIBE THE COMPANY'S GAS COST RECOVERY PROCEDURES**  
4 **APPROVED BY THIS COMMISSION.**

5 **A.** In the May 1988 gas cost recovery hearing, SCE&G  
6 proposed that it be allowed to levelize the cost of gas  
7 component in its published tariff rates. The current PGA  
8 procedure the Company proposed and the Commission approved is  
9 similar to the currently approved fuel clause used by SCE&G  
10 for its electric fuel cost recovery. The procedure provides  
11 for the projection of the Company's cost of gas over a twelve  
12 month period. SCE&G is required to record, on a monthly basis  
13 in a deferred or unbilled account, the difference between the  
14 cost of gas collected from its customers and the actual cost  
15 of gas incurred. SCE&G is also required to file monthly  
16 reports with the Commission and ORS to keep the agencies  
17 informed as to the activity in this account. The balance in  
18 the account reflects the net accumulation of over or under-  
19 collection of gas costs from its customers, and this  
20 accumulated balance is to be treated as a true-up provision.  
21 The balance in the account is then incorporated into the  
22 establishment of the base gas cost for the next period. This  
23 accumulated over or under-collection is to be subsequently

1 recovered or credited during the next twelve month period.

2 The approved procedure also provides for an out-of-period  
3 adjustment, should significant unanticipated changes to the  
4 Company's cost of gas occur.

5 Q. DURING THE REVIEW PERIOD DID SCE&G FILE WITH THE COMMISSION  
6 AN OUT-OF-PERIOD ADJUSTMENT RESULTING FROM SIGNIFICANT  
7 UNANTICIPATED CHANGES TO THE COMPANY'S COST OF GAS?

8 A. No, they did not.

9 Q. WHAT PROCEDURES HAS THE COMPANY USED IN ESTABLISHING THE BASE  
10 COST OF GAS FOR THE TWELVE MONTH PERIOD BEGINNING IN NOVEMBER  
11 2005?

12 A. SCE&G projected its gas cost for this period. The  
13 procedures used in projecting the base cost of gas are as  
14 follows:  
15 A) Gas costs are based on the historical twelve months  
16 actual gas cost from September 2004 through August 2005.  
17 These gas costs are then adjusted for known and measurable  
18 changes for the forecasted period November 2005 through  
19 October 2006. Specifically, these projected gas costs include  
20 the latest known rates of South Carolina Pipeline Corporation  
21 ("SCPC") adjusted for rate changes filed by Southern Natural  
22 Gas ("Southern") and Transcontinental Gas Pipeline

1 Corporation ("Transco"). In addition, these gas costs reflect  
2 projected well head commodity prices.

3 B) The calculated base cost of gas is then multiplied by the  
4 forecasted sales for the period November 2005 through October  
5 2006. The forecasted sales are adjusted to reflect normal  
6 weather.

7 **Q. HAS THE COMPANY PROPOSED A METHODOLOGY WHICH ALLOCATES GAS**  
8 **COST TO THE FIRM RATE CLASSES DIFFERENTLY FROM THE CURRENTLY**  
9 **APPROVED PURCHASED GAS ADJUSTMENT CLAUSE?**

10 **A.** Yes. The Company has proposed a two part cost of gas  
11 methodology. The Company's proposed two part cost of gas is  
12 comprised of a Demand component and a Commodity component.  
13 The proposed Demand and Commodity cost calculations recognize  
14 the demand placed on the Company's system by the three firm  
15 rate classes of service: Residential, Commercial and  
16 Industrial. The demand allocations are based upon each  
17 classes percentage of the Company's Peak Design Day Demand  
18 ("PDDD") for the 2005-2006 winter heating season.

19 **Q. WHAT IMPACT WILL THE ALLOCATION OF GAS COST HAVE ON THE**  
20 **INTERRUPTIBLE COMPETITIVE CUSTOMERS OF THE COMPANY?**

21 **A.** The interruptible competitive customers of the Company  
22 will not see any change from the new cost of gas calculation  
23 for firm customers. The Company will continue to bid

1 competitive gas prices to its interruptible customers who  
2 have alternate fuel sources. The new cost of gas calculation  
3 will not change the Industrial Sales Program for alternative  
4 fuel customers.

5 **Q. WHAT WILL BE THE IMPACT TO SCE&G'S FIRM CUSTOMERS RESULTING**  
6 **FROM THE NEW BASE COST OF GAS PROPOSED BY THE COMPANY FOR THE**  
7 **TWELVE MONTH PERIOD BEGINNING IN NOVEMBER 2005?**

8 **A.** The Firm benchmark cost of gas factors proposed are  
9 Residential - \$1.40499 per therm, Commercial - \$1.32758 per  
10 therm and Industrial - \$1.30289 per therm. Attached, as  
11 Exhibit No. \_\_ (BLS-1), is a comparison of a residential  
12 customer's annual cost at 600 therms.

13 The gas cost factors proposed by the Company represent  
14 latest known supplier gas costs times projected normalized  
15 sales for the period November 2005 through October 2006. I  
16 have also attached as Exhibit No. \_\_ (BLS-2) a comparison of  
17 rates to residential customers of SCE&G and Piedmont Natural  
18 Gas Company.

19 **Q. WHAT IMPACT WILL THE SALES TO INTERRUPTIBLE COMPETITIVE**  
20 **CUSTOMERS HAVE ON THE FIRM BASE COST OF GAS FACTOR?**

21 **A.** Under the Settlement submitted in Docket No. 2005-113-  
22 G, the Company will credit directly to firm customers cost of  
23 gas the net revenue it earns from interruptible sales.



Specifically, this credit to the firm customers' cost of gas calculation resulted in the factors identified above as opposed to an overall cost of gas of \$1.46196 per therm for all usage groups under the currently approved methodology.

**Q. HOW DOES THE UNDER-COLLECTION OF GAS COSTS FOR THE TWELVE MONTH PERIOD ENDING OCTOBER 2005 IMPACT THE COST OF GAS FOR THE TWELVE MONTH PERIOD ENDING OCTOBER 2006?**

**A.** The projected cost of gas for the twelve months period November 2005 through October 2006 has been adjusted for an under-collection of gas costs in the amount of \$14,076,545. The under-collection results in an increase of \$0.065 per therm for the projected period.

**Q. WHAT FACTORS HAVE CONTRIBUTED TO THE TEST-YEAR UNDER-COLLECTION?**

**A.** A number of factors exist that contribute to the Company over or under collecting its actual gas costs. Analysis of the factors contributing to the under-collection for the current review period focus on two areas. The first contributor was the impact resulting from hedging losses. For the historic review period SCE&G had forecasted hedging losses of (\$316,546) compared to actual hedging losses of (\$4,936,076) or a difference of (\$4,619,530). This difference resulted in an under-collection of gas costs for the review

1 period totaling (\$4,619,530) as shown on Exhibit No. \_\_\_ (BLS-  
2 3). The second and major contributing factor was the  
3 increase of actual gas costs above forecast. These costs are  
4 comprised of both fixed demand and commodity cost of gas.

5 **Q. HOW DID THE DEMAND COST CONTRIBUTE TO THE HISTORIC REVIEW**  
6 **PERIOD UNDER-COLLECTION?**

7 **A.** During the review period the Company under collected  
8 demand cost totaling \$2,780,504. Part of this under-  
9 collection was SCE&G's projected demand cost of \$33,865,712  
10 and actual billed demand costs of \$34,465,920 amounting to an  
11 increase of approximately \$600,208. The most significant  
12 reason for the demand cost under-collection was due to the  
13 Company experiencing 8% less firm sales than were forecasted.  
14 The 8% lower than forecasted sales resulted in \$2,180,296  
15 under recovery of the demand component in the approved cost  
16 of gas factor.

17 **Q. HOW DID THE COMMODITY COST CONTRIBUTE TO THE REVIEW PERIOD**  
18 **UNDER-COLLECTION?**

19 **A.** SCE&G experienced an under-collection of commodity gas  
20 costs of \$11,296,041. Two factors impacted the collection of  
21 commodity gas costs:

- 22 • The actual price of the commodity experienced during  
23 the review period was greater than forecasted.

- 1           • The actual sales volumes experienced during the review  
2           period were 8% less than forecasted.

3           The winter period November 2004 through March 2005 as  
4           identified on Exhibit No. \_\_ (BLS-4) was warmer than normal.  
5           This Exhibit shows that the month of October was 63.15%  
6           warmer than normal, November was 29.72% warmer than normal,  
7           December was 6.80% warmer than normal, January was 16.50%  
8           warmer than normal, February was 4.22% colder than normal,  
9           March was 8.79% colder than normal and April was 16.05%  
10          warmer than normal. In reviewing the weather experienced by  
11          SCE&G in its service territory, Normal Heating Degree Days  
12          are the normal heating degree day totals for the thirty year  
13          period 1971 - 2000, as produced by the National Oceanic and  
14          Atmospheric Administration (NOAA) for the SCE&G system. This  
15          data is the average from the Columbia and Charleston  
16          Climatological stations. Actual degree data is received daily  
17          from NOAA as recorded at the Columbia and Charleston  
18          Climatological stations.

1 Q. DOES THE COMPANY'S CURRENT APPROVED PGA CLAUSE, AS WELL AS  
2 THE PGA SUBMITTED IN DOCKET 2005-113-G, ALLOW SCE&G TO  
3 REQUEST A CHANGE IN THE COST OF GAS PRIOR TO THE COMPANY'S  
4 2006 ANNUAL PGA REVIEW PROCEEDING?

5 A. Yes. As provided by Order No. 88-578 at pages 5 and 6,  
6 the Commission will conduct an annual review of SCE&G's gas  
7 purchasing policies at which time the gas cost component  
8 may be adjusted. The approved procedure and the procedure  
9 submitted in the settlement both provide an opportunity for  
10 out of period adjustments, if significant changes to the  
11 cost of gas occur within the forecasted period.

12 Q. DOES ORS VERIFY THE MONTHLY DERIVATION OF GAS COST MADE BY  
13 SCE&G?

14 A. Yes. Each month ORS receives from SCE&G a comparison  
15 of the actual calculated cost of gas for the month compared  
16 to the levelized cost of gas component approved by this  
17 Commission. In preparation for each annual review of the  
18 levelized cost of gas component, ORS reviews adjustments,  
19 additions to, and subtractions from the cost of gas  
20 calculation.

1 Q. WHAT ARE ORS'S FINDINGS WITH REGARD TO THE COMPANY'S GAS  
2 PURCHASING POLICIES DURING THE REVIEW PERIOD?

3 A. SCE&G purchased all gas supplies from SCPC under  
4 Commission approved tariffs and procedures. SCE&G's gas  
5 purchasing policies were in accordance with Commission Order  
6 No. 2005-79 and enabled the Company to receive adequate  
7 supplies of firm gas to meet its customers' needs.

8 Q. HAS ORS REVIEWED SCE&G'S PROPOSAL TO RETIRE ITS PROPANE AIR  
9 FACILITIES?

10 A. Yes. ORS has met with Company representatives and  
11 reviewed the Company's testimony addressing the retirement of  
12 the remaining two propane air plants, the Leeds Avenue  
13 facility in Charleston and the Lucius Road facility in  
14 Columbia. Based upon information received from the Company  
15 regarding both safety and changes in flow patterns, ORS does  
16 not object to the Company's proposal to retire these two  
17 propane-air plants.

18 Q. AS A RESULT OF THE RETIREMENT OF THE PROPANE AIR PLANTS AND  
19 THE 5,000 DT PER DAY CUSTOMER LOAD GROWTH, WILL SCE&G NEED TO  
20 REPLACE THE SHORTFALL IN CAPACITY WITH SOME OTHER FORM OF  
21 CAPACITY?

22 A. Yes. Due to the retirement of the propane air plants  
23 and the forecasted increase in load growth, SCE&G must now

1       acquire capacity to meet Peak Design Day Demand requirements  
2       that were previously met with the availability of the plants.  
3       To meet this shortfall in capacity requirements the Company  
4       has negotiated two contracts with SCPC. The first contract is  
5       an increase in the Company's existing firm supply contract  
6       with SCPC for 36,693 dt per day. The second contract is for  
7       a Resale Firm Transportation Peaking (RFTP) service with SCPC  
8       for 40,410 dt per day. ORS has reviewed these two contracts  
9       and has determined they will meet the additional supply and  
10      capacity requirements resulting from the retirement of the  
11      two propane-air plants and forecasted customer growth.

12   **Q.   WHAT PROCEDURE IS IN PLACE TO ENSURE THAT NATURAL GAS**  
13       **SUPPLIES ARE READILY AVAILABLE TO FIRM CUSTOMERS DURING**  
14       **EXTREMELY COLD WEATHER?**

15   **A.**       SCE&G operates under an end user curtailment plan  
16       approved by this Commission. The curtailment plan will limit  
17       purchases of natural gas by interruptible customers to a  
18       level that will not jeopardize the Company's obligation to  
19       serve its firm customers. Curtailments are determined by the  
20       category of service that a customer is purchasing under and  
21       identified in the Commission approved General Terms and  
22       Conditions accompanying each industrial customer's contract.  
23       There may be rare situations when supplemental deliveries of

1 natural gas may be required to forestall irreparable injury  
2 to life or property including environmental emergencies.

3 These deliveries defined as Emergency Service must first be  
4 approved by the Company and are exempted from curtailment.

5 **Q. DOES ORS BELIEVE THE OPERATION OF THE COMPANY'S INDUSTRIAL**  
6 **SALES PROGRAM RIDER (ISP-R) SHOULD CONTINUE?**

7 **A.** Yes. ORS believes that some type of program or  
8 mechanism is required for a natural gas utility to  
9 effectively compete with alternate fuels in the industrial  
10 market. Industrial customers prefer to use natural gas  
11 because its use results in less maintenance to their  
12 equipment. Also, the emissions from natural gas-fired  
13 equipment result in considerably fewer pollutants flowing  
14 into the environment in comparison to alternative fuels such  
15 as fuel oils. In this regard, ORS would expect that the  
16 industrial customers would continue to support the ISP-R  
17 program.

18 **Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?**

19 **A.** Yes, it does.

## SOUTH CAROLINA ELECTRIC & GAS COMPANY

### Comparison of Rates for Residential Value Service

#### Based on Annual Residential Usage of 600 Therms

	(1)	(2)	(3)	(4)
Month	Therms	Rates Effective November 1, 2004	Proposed Rates Effective November 1, 2005	Total Difference Col (3)-Col (2)
Nov-05	25	\$31.30	\$49.61	\$18.30
Dec-05	100	\$121.11	\$178.50	\$57.39
Jan-06	100	\$121.11	\$178.50	\$57.39
Feb-06	100	\$121.11	\$178.50	\$57.39
Mar-06	100	\$121.11	\$178.50	\$57.39
Apr-06	25	\$31.30	\$49.61	\$18.30
May-06	25	\$31.30	\$49.61	\$18.30
Jun-06	25	\$31.30	\$49.61	\$18.30
Jul-06	25	\$31.30	\$49.61	\$18.30
Aug-06	25	\$31.30	\$49.61	\$18.30
Sep-06	25	\$31.30	\$49.61	\$18.30
Oct-06	25	\$31.30	\$49.61	\$18.30
	600	\$734.87	\$1,110.85	\$375.98



## SOUTH CAROLINA ELECTRIC & GAS COMPANY

### Comparison of Rates for Residential Standard Service

#### Based on Annual Residential Usage of 472 Therms

	(1)	(2)	(3)	(4)
			Proposed	Total
Month	Therms	Rates Effective November 1, 2004	Rates Effective November 1, 2005	Difference Col (3)-Col (2)
Nov-05	9	\$13.19	\$24.39	\$11.20
Dec-05	100	\$121.11	\$186.24	\$65.13
Jan-06	100	\$121.11	\$186.24	\$65.13
Feb-06	100	\$121.11	\$186.24	\$65.13
Mar-06	100	\$121.11	\$186.24	\$65.13
Apr-06	9	\$13.19	\$24.39	\$11.20
May-06	9	\$13.19	\$20.92	\$7.73
Jun-06	9	\$13.19	\$20.92	\$7.73
Jul-06	9	\$13.19	\$20.92	\$7.73
Aug-06	9	\$13.19	\$20.92	\$7.73
Sep-06	9	\$13.19	\$20.92	\$7.73
Oct-06	9	\$13.19	\$20.92	\$7.73
	472	\$589.96	\$919.25	\$329.29

## SOUTH CAROLINA ELECTRIC & GAS COMPANY

### Comparison of Rates for Residential Value Service

#### Based on Annual Residential Usage of 600 Therms

	(1)	(2)	(3)	(4)
		SCE&G	Piedmont Natural	
		Proposed	Currently Approved	Total
Month	Therms	Rates Effective	as of	Difference
		November 1, 2005	November 1, 2005	Col (3)-Col (2)
Nov-05	25	\$49.61	\$48.22	-\$1.39
Dec-05	100	\$178.50	\$162.88	-\$15.62
Jan-06	100	\$178.50	\$162.88	-\$15.62
Feb-06	100	\$178.50	\$162.88	-\$15.62
Mar-06	100	\$178.50	\$162.88	-\$15.62
Apr-06	25	\$49.61	\$46.22	-\$3.39
May-06	25	\$49.61	\$46.22	-\$3.39
Jun-06	25	\$49.61	\$46.22	-\$3.39
Jul-06	25	\$49.61	\$46.22	-\$3.39
Aug-06	25	\$49.61	\$46.22	-\$3.39
Sep-06	25	\$49.61	\$46.22	-\$3.39
Oct-06	25	\$49.61	\$46.22	-\$3.39
	600	\$1,110.85	\$1,023.27	-\$87.58

**SOUTH CAROLINA ELECTRIC & GAS COMPANY**  
**Comparison of Rates for Residential Standard Service**

**Based on Annual Residential Usage of 472 Therms**

	(1)	(2)	(3)	(4)
		<b>SCE&amp;G</b>	<b>Piedmont Natural</b>	
<b>Month</b>	<b>Therms</b>	<b>Proposed</b>	<b>Currently Approved</b>	<b>Total</b>
		<b>Rates Effective</b>	<b>as of</b>	<b>Difference</b>
		<b>November 1, 2005</b>	<b>November 1, 2005</b>	<b>Col (3)-Col (2)</b>
Nov-05	9	\$24.39	\$25.22	\$0.84
Dec-05	100	\$186.24	\$179.15	-\$7.09
Jan-06	100	\$186.24	\$179.15	-\$7.09
Feb-06	100	\$186.24	\$179.15	-\$7.09
Mar-06	100	\$186.24	\$179.15	-\$7.09
Apr-06	9	\$24.39	\$23.15	-\$1.24
May-06	9	\$20.92	\$23.15	\$2.23
Jun-06	9	\$20.92	\$23.15	\$2.23
Jul-06	9	\$20.92	\$23.15	\$2.23
Aug-06	9	\$20.92	\$23.15	\$2.23
Sep-06	9	\$20.92	\$23.15	\$2.23
Oct-06	9	\$20.92	\$23.15	\$2.23
	<b>472</b>	<b>\$919.25</b>	<b>\$903.88</b>	<b>-\$15.37</b>

**SOUTH CAROLINA ELECTRIC & GAS COMPANY**  
**MONTHLY HEDGING GAINS/LOSSES COMPARED TO ACTUAL**

Month	Forecasted Gains/(Losses)	Actual Gains/(Losses)	Difference
Nov-04	(\$118,388)	(\$150,960)	(\$32,572)
Dec-04	(\$198,158)	(\$326,651)	(\$128,493)
Jan-05	\$0	(\$4,384)	(\$4,384)
Feb-05	\$0	(\$1,510,457)	(\$1,510,457)
Mar-05	\$0	(\$1,567,564)	(\$1,567,564)
Apr-05	\$0	(\$9,216)	(\$9,216)
May-05	\$0	(\$464,099)	(\$464,099)
Jun-05	\$0	(\$722,955)	(\$722,955)
Jul-05	\$0	(\$219,828)	(\$219,828)
Aug-05	\$0	\$40,038	\$40,038
	(\$316,546)	(\$4,936,076)	(\$4,619,530)

## SOUTH CAROLINA ELECTRIC & GAS COMPANY

### SCE&G Service Territory Heating Degree Day Comparison

Month / Yr	Normal	Actual	Var.	% Var.
Oct-04	38.78	14.29	24.49	63.15%
Nov-04	188.50	132.48	56.02	29.72%
Dec-04	404.23	376.75	27.48	6.80%
Jan-05	541.60	452.24	89.36	16.50%
Feb-05	527.10	549.36	(22.26)	-4.22%
Mar-05	364.15	396.16	(32.01)	-8.79%
Apr-05	177.23	148.78	28.45	16.05%
<b>Total</b>	<b>2,241.59</b>	<b>2,070.06</b>	<b>171.53</b>	<b>7.65%</b>

**THE OFFICE OF REGULATORY STAFF**

**DIRECT TESTIMONY AND EXHIBITS**

**OF**

**ROY H. BARNETTE**

RECEIVED

2005 OCT - 6 PM 4: 15

SC PUBLIC SERVICE  
COMMISSION



**Docket No. 2005-5-G**

**South Carolina Electric and Gas Company, Inc.**

**Annual Review of Purchased Gas Adjustment  
and**

**Gas Purchasing Policies**

**DIRECT TESTIMONY OF ROY H. BARNETTE**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2005-5-G**

**IN RE: SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC**

**PURCHASED GAS ADJUSTMENT (PGA)**

**Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS  
AND OCCUPATION.**

**A. My name is Roy H. Barnette. My business address is 1441  
Main Street, Suite 300, Columbia, South Carolina, 29201.  
I am employed by the Office of Regulatory Staff as an  
Auditor.**

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A. Following a six year enlistment in the United States  
Marine Corps, I received a B. S. Degree in Business  
Administration with a major in Accounting from the  
University of South Carolina in 1968. From 1968 to 1971  
I was employed with S. D. Leidesdorf and Company, a  
national CPA firm in Charlotte, North Carolina. In 1972  
I entered the private business sector, where I was  
employed by Bagnal Builders Supply Co. Inc., here in  
Columbia, serving as Senior Vice President and Chief**

---

**THE OFFICE OF REGULATORY STAFF  
1441 Main Street, Suite 300, Columbia, S.C. 29201  
Post Office Box 11263, Columbia, S.C. 29211**

1 Financial Officer from 1972 until September 1999. From  
2 September 1999 until December 2004, I was a member of  
3 the Audit Staff of the South Carolina Public Service  
4 Commission ("Commission") where I participated in cases  
5 involving gas, water and wastewater companies. In  
6 January 2005, I began my employment with the Office of  
7 Regulatory Staff ("ORS").

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING SOUTH  
9 CAROLINA ELECTRIC AND GAS COMPANY?

10 A. The purpose of my testimony is to present ORS's findings  
11 and recommendations resulting from a review of the books  
12 and records pertaining to the annual review of the  
13 Purchased Gas Adjustment ("PGA") of South Carolina  
14 Electric and Gas Company ("SCE&G" or "Company").

15 Q. WHAT FACTOR ADJUSTMENTS HAVE BEEN APPROVED IN THE TWO  
16 MOST RECENT FILINGS AND WHAT IS THE COMPANY REQUESTING  
17 IN THE CURRENT PROCEEDING?

18 A. In Docket No. 2003-5-G, Order No. 2003-652 dated  
19 November 17, 2003 the Commission approved a PGA Factor  
20 of \$0.87656 per therm. In Docket No. 2004-5-G, Order No.  
21 2005-279 dated July 1, 2005, the Commission approved a  
22 PGA factor of \$0.90347 per therm effective with the  
23 first billing cycle in November 2004. In the current



1 proceeding, the Company is requesting approval of an  
2 increase in the PGA Factor from \$0.90347 per therm to  
3 \$1.40499 per therm, or an increase of \$0.50152 per therm  
4 for the Residential group; an increase to \$1.32758 per  
5 therm, or an increase of \$0.42411 per therm for the  
6 Small/Medium General Service ("SGS/MGS") group; and an  
7 increase to \$1.30289 per therm, or an increase of  
8 \$0.39942 per therm for the Large General Service ("LGS")  
9 group. Under the methodology used in calculating  
10 previous PGA factors, the Company would be asking for an  
11 increase in the PGA factor from the currently approved  
12 amount of \$0.90347 per therm to \$1.46196 per therm, or  
13 an increase of \$0.55849 per therm for all Firm usage  
14 groups.

15 Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE, OR  
16 CAUSE TO BE PREPARED CERTAIN EXHIBITS?

17 A. Yes. Audit Exhibit RHB-1 and Audit Exhibit RHB-2 are  
18 attached to my testimony.

19 Q. ON WHAT AUTHORITY DOES ORS MONITOR THE COMPANY'S  
20 DEFERRED COST OF GAS?

21 A. In Docket Number 87-426-G, Order Number 87-898 dated  
22 August 14, 1987, the Commission required an annual

1 review of the Purchased Gas Adjustment and Gas  
2 Purchasing Policies of SCE&G.

3 Q. HAS ORS CONDUCTED THE COMMISSION'S REQUIRED AUDIT OF  
4 THE COMPANY'S DEFERRED COST OF GAS?

5 A. Yes. ORS has reviewed the Company's Unbilled Revenue  
6 Calculations for the twelve months ended August 31, 2005  
7 and traced amounts to books and records of the Company  
8 and to supporting documentation.

9 Q. WOULD YOU PLEASE EXPLAIN THE FORMAT USED IN AUDIT  
10 EXHIBIT RHB-1?

11 A. Yes. Audit Exhibit RHB-1 is the Company's Unbilled  
12 Revenue Calculation for the test year ended August 31,  
13 2005. The Company's total cost of gas of \$348,318,539 is  
14 shown in Column (1). SCE&G purchases all of its gas from  
15 South Carolina Pipeline Corporation, a SCANA Subsidiary,  
16 and utilizes propane air plants during peak demand  
17 periods. All costs shown in Column (1) have been  
18 verified from invoices of the supplier and traced to  
19 books and records of the Company. Column (2) of the  
20 exhibit is the non-competitive cost of gas per therm  
21 sold as compared with Column (3), which are the PGA  
22 Factors approved by the Commission for the review  
23 period. The difference between these two factors, shown

1 in Column (4), when applied to the firm therms sold in  
2 Column (5), determined the Unbilled Monthly  
3 (Over)/Under-Collection of purchased gas costs shown in  
4 Column (6). Finally, Column (7) has the Unbilled Revenue  
5 corrections for prior months based on supplier billing  
6 corrections. Columns (6) and (7) plus the cumulative  
7 (Over)/Under-Collection from the previous month equals  
8 the cumulative (Over)/Under-Collection in Column (8).  
9 ORS's cumulative (Over)/Under-Collection calculation  
10 reflects a cumulative under-collection of \$562,347 as of  
11 August 31, 2005. This amount differs from the Company  
12 calculation of an under-collection of \$598,307 by  
13 \$35,960. This difference results from the Company  
14 excluding from its calculation, of competitive costs,  
15 the costs of Emergency Gas and Penalty Gas for the month  
16 of August 2005. The Company has been informed of this  
17 difference and concurs with the propriety of the  
18 adjustment. The Company will make such adjustment in its  
19 September 2005 calculations. Including the Company's  
20 Purchased Gas Cost projections for September and October  
21 2005, results in a net under-collection for the review  
22 period of \$23,697,687 and a cumulative net under-  
23 collection as of October 31, 2005 of \$14,076,545. The

1 Company's proposed cost of gas for the twelve months  
2 ending October 2006 is \$1.40499 for the Residential  
3 group, \$1.32758 for the SGS/MGS group and \$1.30289 for  
4 the LGS group which is designed to collect the entire  
5 under-collection of \$14,076,545 at October 31, 2006.

6 Q. WOULD YOU EXPLAIN AUDIT EXHIBIT RHB-2 ENTITLED  
7 "CALCULATION OF COST PER THERM SOLD"?

8 A. Audit Exhibit RHB-2 shows the calculation of Cost of Gas  
9 per Therm for firm and base rate interruptible  
10 customers. Column (1) shows the cost of gas to  
11 competitive customers under the Industrial Sales Program  
12 Rider (ISPR) totaling \$139,447,640. Column (2) shows  
13 non-competitive Cost of Gas (firm and base rate  
14 interruptible customers) of \$208,870,899. Column (3) is  
15 the sum of Columns (1) and (2) which results in the  
16 Company's Total Cost of Gas by month which agrees with  
17 Column (1) of Audit Exhibit RHB-1. Columns (4) and (5)  
18 present the firm and base rate interruptible therms  
19 sold, respectively, on a monthly basis. Column (6) is  
20 the sum of Columns (4) and (5). Dividing Column (2),  
21 non-competitive cost of gas, by Column (6), total non-  
22 competitive therms, results in Column (7), total non-  
23 competitive cost per therm for an average of \$0.932731

1 for the test year. Column (8) represents the Company's  
2 cost per therm for propane. Column (7) plus Column (8)  
3 equals Column (9) which contains the total cost of gas  
4 per therm for firm and base rate interruptible customers  
5 and agrees with Column (2) of Audit Exhibit RHB-1.

6 Q. WHAT IS THE CURRENT STATUS OF THE COMPANY'S  
7 ENVIRONMENTAL CLEANUP COST ("ECC") FACTOR?

8 A. In Order No. 94-1117, the Commission approved the  
9 addition of a per therm factor to the PGA to recover  
10 environmental cleanup costs resulting from the  
11 dismantlement of manufactured gas plants ("MGP"). The  
12 Commission further determined that this factor would be  
13 reviewed annually with the review of the PGA. Since  
14 Order Number 2003-652 dated November 17, 2003, SCE&G has  
15 collected an ECC Factor of \$.008 per therm. As part of  
16 the Company's recent rate case filing, Docket Number  
17 2005-113-G, the Company requested that the ECC Factor be  
18 included in base rates rather than as part of the PGA.  
19 If approved by this Commission, this change would go  
20 into effect on November 1, 2005.

21 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

22 A. Yes, it does.

**SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC.**  
**UNBILLED REVENUE CALCULATION**  
**FOR THE TWELVE MONTHS ENDED AUGUST 31, 2005**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Description	Total Cost of Gas	Non-Compet. Cost of Gas Per Therm Sold	Commission- Approved PGA Factor	Difference	Firm Therms Sold	Unbilled Monthly (Over)/Under Collection	Cumulative (Over)/Under Collection
Beginning Balance at September 1, 2004							\$ (9,621,142)
Sep-04	\$ 15,950,971	\$ 1,145,315	\$ 0.87656	\$ 0.288755	\$ 6,819,695	\$ 1,832,827	\$ 139,137
Oct-04	18,301,095	1,158,344	0.87656	0.281784	7,345,922	2,069,963	173,473
Nov-04	29,735,987	1,389,435	0.90347	0.485965	12,773,251	6,207,353	74,605
Dec-04	48,918,152	1,283,897	0.90347	0.380427	27,389,172	10,419,581	(151,144)
Jan-05	42,850,316	0.831328	0.90347	(0.072142)	35,946,249	(2,593,234)	11,144,653
Feb-05	39,348,675	0.688558	0.90347	(0.214912)	39,319,676	(8,450,270)	8,810,931
Mar-05	38,109,639	0.769657	0.90347	(0.133813)	31,607,234	(4,229,459)	751,936
Apr-05	27,004,031	0.759983	0.90347	(0.143487)	18,116,724	(2,599,514)	(3,350,009)
May-05	23,682,829	0.915841	0.90347	0.012371	11,114,633	137,499	(6,183,290)
Jun-05	20,511,240	1.087527	0.90347	0.184057	8,176,763	1,504,990	(5,826,579)
Jul-05	21,822,922	1.296887	0.90347	0.393417	6,754,764	2,657,439	(4,308,585)
Aug-05	22,082,682	1.239167	0.90347	0.335697	6,383,830	2,143,033	(1,574,309)
Sub-Totals	348,318,539				211,747,913	9,100,208	562,347
September 2005 Projected (A)		1,625,790	0.90347	0.722320	7,447,000	5,379,117	5,941,464
October 2005 Projected (A)		1,756,830	0.90347	0.853360	9,533,000	8,135,081	14,076,545
Totals	\$ 348,318,539				228,727,913	22,614,406	\$ 1,083,281
					(B)	(B)	(B)

Note (A): Projections by SCE&G.  
Note (B): The net under-collection for the review period, including the projected months of September and October 2005, is \$23,697,687.

**SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC.**  
**CALCULATION OF COST PER THERM SOLD**  
**FOR TWELVE MONTHS ENDED AUGUST 31, 2005**

Month	(1) (Note 1) Competitive Cost of Gas	(2) (Note 2) Non-Competitive Cost of Gas	(3) Total Cost of Gas	(4) Firm Therms Sold	(5) Base Rate Interr. Therms Sold	(6) Total Non- Competitive Therms Sold	(7) Non-Compet. Cost Per Therm Sold	(8) Cost Per Therm - Propane	(9) Total Cost of Gas Per Therm Sold
Sep-04	\$ 8,351,223	\$ 7,599,748	\$ 15,950,971	6,819,695	(184,185)	6,635,510	\$ 1,145,315	\$ 0.000000	\$ 1,145,315
Oct-04	9,601,480	8,699,615	18,301,095	7,345,922	165,493	7,511,415	1,158,186	0.000158	1,158,344
Nov-04	11,805,454	17,930,533	29,735,987	12,773,251	132,187	12,905,438	1,389,378	0.000057	1,389,435
Dec-04	13,507,786	35,410,366	48,918,152	27,389,172	192,252	27,581,424	1,283,848	0.000049	1,283,897
Jan-05	12,591,337	30,258,979	42,850,316	35,946,249	453,541	36,399,790	0.831295	0.000033	0.831328
Feb-05	4,926,698	34,421,977	39,348,675	39,319,676	10,674,478	49,994,154	0.688520	0.000038	0.688558
Mar-05	13,559,919	24,549,720	38,109,639	31,607,234	291,320	31,898,554	0.769619	0.000038	0.769657
Apr-05	13,089,085	13,914,946	27,004,031	18,116,724	192,844	18,309,568	0.759983	0.000000	0.759983
May-05	13,527,527	10,155,302	23,682,829	11,114,633	(26,133)	11,088,500	0.915841	0.000000	0.915841
Jun-05	11,624,139	8,887,101	20,511,240	8,176,763	(4,920)	8,171,843	1.087527	0.000000	1.087527
Jul-05	13,063,166	8,759,756	21,822,922	6,754,764	(318)	6,754,446	1.296887	0.000000	1.296887
Aug-05	13,799,826	8,282,856	22,082,682	6,383,830	300,380	6,684,210	1.239167	0.000000	1.239167
Totals	\$ 139,447,640	\$ 208,870,899	\$ 348,318,539	211,747,913	12,186,939	223,934,852	\$ 0.932731		

Exhibit No. (AUDIT EXHIBIT RHB - 2)

Note 1: Competitive Cost of Gas includes those customers whose purchases were under the Company's Industrial Sales Program Rider.

Note 2: Non-Competitive Cost of Gas includes the Company's Firm and Base Rate Interruptible customers.

Note 3: For presentation purposes only, certain of the dollar amounts included in this schedule may be rounded to the nearest dollar amount.